Service Date: April 5, 1983

DEPARTMENT OF PUBLIC SERVICE REGULATION
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MONTANA

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IN THE MATTER of the Application of the TREASURE STATE PIPE LINE COMPANY and CONSUMERS GAS COMPANY for Authority to Increase Rates and Charges for Natural Gas Service.	UTILITY DIVISION DOCKET NOS. 82.7.48 82.7.51 ORDER NOS. 4930a 4932a

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FINAL ORDER

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APPEARANCES

FOR THE APPLICANT:

Richard F. Gallagher, Attorney at Law, Church, Harris, Johnson, & Williams, P.O. Box 1645, Great Falls, Montana 59401, appearing on behalf of Treasure State Pipe Line Company and Consumers Gas Company.

FOR THE COMMISSION:

Opal Winebrenner, Staff Counsel

BEFORE:

CLYDE JARVIS, Commissioner and Presiding Officer
JOHN B. DRISCOLL, Commissioner
HOWARD L. ELLIS, Commissioner

BACKGROUND

1. On July 6, 1982, both Treasure State Pipe Line Company (TSP or Applicant) and Consumers Gas Company (CGC or Applicant) filed natural gas rate increases with the Montana Public

Service Commission (PSC or Commission). TSP requested authority to increase gas rates by $72,847, and made a motion for interim relief of $72,847. Since TSP is CGC's only natural gas supplier, CGC applied for authority to pass through any increased costs of gas to its customers as a result of rate increases granted to TSP. CGC also made a motion for interim relief in order to pass through any interim increases granted TSP.

2. On July 9, 1982, TSP was directed to provide calculations showing the need for interim relief in accordance with ARM 38.5.506(2). On August 18, 1982, TSP filed a revised interim rate increase application seeking additional revenues in the amount of $61,067, and the Commission granted the revised interim amount, and the interim pass-through to CGC.

3. Following issuance of proper notice, the Public Service Commission conducted a public hearing on the rate increase applications Tuesday, November 9, 1982, at 10:00 a.m. in the Courtroom of the Toole County Courthouse, 200 First Street, Shelby, Montana.

FINDINGS OF FACT

4. The Applicant's last general rate increase (June 1979) allowed a net return of $8,502 and provided that TSP was to pay a $70,000 debt to Hardrock Oil Company over the next five years. TSP has since received pass-through increases due to natural gas rate increases granted by the Commission to TSP's supplier, the Montana Power Company. TSP subsequently has passed-through

such increases to CGC, the gas service company. The Commission notes that TSP and CGC are sister companies and have the same stockholders.

In June 1981, the Commission allowed TSP to abandon 21 miles of its transmission line which had served four customers. The abandonment resulted in the loss of Hardrock Oil Company's less expensive natural gas, thus causing TSP's natural gas rates to increase by 30.14 cents per Mcf on July 1, 1982. The Commission notes that TSP is a wholly-owned subsidiary of the Hardrock Oil Company. In August 1981, TSP sold this transmission line to Western Reserves, Inc. for $76,188. The Commission also notes that TSP has a lease back agreement with Western Reserves for a portion of the Oilmont/Ferdig pipeline that serves the Texaco Company's Baker lease.

In December 1981, the Commission allowed TSP to terminate the Oilmont/Four Corners/Ferdig portions of its natural gas transmission line. With the abandonment of that gas pipeline, TSP became 100% dependent on the Montana Power Company for its natural gas supply, and CGC lost 34 service customers.

5. In this rate application filing, the Company requested an unaccounted for gas allowance of 18.5 percent. The Commission approved an allowance of 13.6 percent in the calculation of interim revenues. At the hearing, Gregory Holt, TSP vice-president, contended that the Commission's determination of the allowance for "lost and unaccounted for" natural gas loss would be crucial

to the Applicant's ability to upgrade the system and continue to service operations. Holt testified that the current level of unaccounted for gas was 18.5 percent. In spite of the PSC's recent approval of two pipeline abandonments, Holt testified that the percentage of unaccounted for gas was relatively unchanged, although the volume (Mcfs) of unaccounted for gas losses has decreased by about 60 percent. The Commission finds that the loss of nearly one-fifth of all purchased gas does not represent efficient utility service.

6. The Applicant sponsored Exhibit B, which contained an explanation of its plan to reduce unaccounted for gas losses, and a summary of TSP and CGC's activities during 1981 and 1982 to that end. Improvements accomplished during 1981 and 1982, included termination of 21 miles of transmission line, abandonment of 10 additional miles, installation of 100 temperature compensated meters, installation of city gates for Sunburst and Sweet Grass, use of Montana Power Company's pressure regulator for the Sunburst line, a leak detection survey and line replacement and repair. It was also stated that when the Sunburst line replacement project was completed another leak survey would be done on the entire system. When the Applicant submitted its proposed order for these Dockets, it stated that all line construction projects were completed and that 125 temperature compensated meters were being installed. The Applicant contends that due to the depreciation of TSP assets, and past revenue deficiencies, the Applicant

stockholders cannot finance system capital improvements and the ratepayer must fund such improvements through increased rates. The Commission finds, however, that both TSP and CGC have a statutory duty to provide their customers with adequate service at reasonable and just charges.

7. During the last general rate case for TSP, the Commission approved the repayment of a $70,000 note payable to Hardrock Oil Company over five years at 13.5 percent per annum interest. TSP has made no payments on this note payable. In this Docket, TSP has proposed that the repayment period be extended from five years to ten years, which will result in a per Mcf increase of .217 cents. Applicant testified that Hardrock Oil Company will forgive the interest that has occurred since the last rate case, if the new repayment plan is approved. Despite the obvious increase in interest expense, the Commission approves the new repayment plan proposed by TSP, and directs Applicant to begin repayment of this note during 1983.

8. The present natural gas rate for TSP (which includes interim rates granted in Order No. 4930) is $7.501 per MCF. The present natural gas rates for Consumers Gas Company (which includes interim rates grated in Order No. 4932) are $9.70 for the first Mcf or less per month and $8.68 for each additional Mcf per month. Gas costs on the TSP system are less than 40 percent of the total rate. Adding more non-gas costs of the type shown in Exhibit B would increase these non-gas costs beyond their present level, which is too high in comparison to other gas utilities in Montana.

9. Holt testified that TSP and CGC have lost 70 customers between year-end 1980 and year end 1981, due to the abandonment of portions of its transmission line, customers who have switched energy sources (electricity or propane), and customers who have moved out of the area due to economic conditions. The Applicant further testified that weatherization and conservation projects also are causing sales decline.

10. Public testimony at the hearing made it clear that additioanl rate increases beyond present levels would drive even more customers off the system. Allen Ryan, superintendent of Sunburst School, testified that if the full increase was granted the annual heating bill for the school would be $105,000. Mr Ryan testified that if the full increase were granted, it was likely that the school would switch to another source of energy. The loss of the Sunburst School load would deal a crippling blow to TSP. The loss of customers forces TSP to seek rate relief, and when rate relief is granted more customers leave the system. The Commission finds that the problems associated with a declining sales base thus continue.

11. Under cross-examination, the Applicant was asked whether consideration was being given to filing for bankruptcy. Applicant's response was that most of the money owed by TSP is to its parent company, Hardrock Oil Company, so there is no advantage to bankruptcy. Holt stated that consideration had been given to trying to sell TSP and CGC to the Montana Power Company or other

investor groups. Holt also stated that the Applicant had not considered the possibility of the remaining customers creating a cooperative, or of having the affected municipalities purchase the natural gas system. At the hearing, the Applicant testified that no estimate has been made as to the minimum number of customers or the minimum number of Mcfs sold that are necessary to continue the operation of TSP and CGC. Holt stated that the Board of Directors of Hardrock Oil Company has discussed that if TSP and CGC are not made profitable, i.e. if the two companies cannot stand on their own, then there is no reason to continue operating the companies. There is no plan, however, beyond that as to how or when to cease operations.

12. The Commission finds that although TSP has taken action to ameliorate the gas loss on its pipeline system, the loss is still high. During periods of low sales, the gas loss is as high as 35 percent systemwide. The abandonment of 31 miles of transmission line has had relatively little effect on lowering the system's loss figure. The Commission cannot justify allowing TSP a loss factor above the 13.6 percent allowed in Interim Order No. 4930, as to do so would be to condone losses that reflect a system that is not operating efficiently.

13. Coupled with the loss factor, is the fact that customers are being driven off the Applicant's system as rates have increased due to the line abandonments, and the pass-through of Montana Power Company rate increases. The Commission acknowl-

edges that TSP has had operating losses for every year since 1969, except 1976, that the fixed assets of TSP have been highly/ nearly depreciated, and that the past revenue deficiencies have depleted capital. The Commission finds, however, in view of TSP's financial situation and gas losses, that it cannot justify increasing rates to TSP and CGC customers above the revenue level granted TSP and CGC in Interim Order Nos. 4930 and 4932. The Commission will not continue the cycle of increased rates being spread over a continually decreasing customer base.

CONCLUSIONS OF LAW

1. The Applicant, TSP and CGC, are corporations providing natural gas services within the State of Montana, and as such are "public utilities" within the meaning of Section 69-3-101, MCA.

2. The Montana Public Service Commission properly exercises jurisdiction over the operations of TSP and CGC pursuant to Title 69, Chapter 3, MCA.

3. The Commission afforded all interested parties notice of and an opportunity to participate in this proceeding. Section 69-3-303, MCA.

4. The Applicant, TSP and CGC, as regulated public utilities have a statutory duty to provide their customers with reasonably adequate service at reasonable and just charges, and to assess unjust and unreasonable rates is prohibited and unlawful. Based upon an analysis of the entire record, the interim rates author-

ized by the Commission in Order Nos. 4930 and 4932, shall become the permanent rates for TSP and CGC, and the Commission finds those rates are just, reasonable, and not unjustly discriminatory. Title 69, Chapter 3, MCA.

ORDER

NOW THEREFORE IT IS ORDERED BY THE COMMISSION THAT:

1. This Order makes permanent the additional revenue of $61,067 granted to Treasure State Pipe Line Company (TSP) in Interim Order No. 4930; and the pass-through rate increase granted to Consumers Gas Company (CGC) in Interim Order No. 4932, i.e. $9.70 for the first Mcf or less per month, and $8.68 for all additional Mcf per month.

2. The Commission approves the ten year repayment plan proposed by TSP for a note payable to Hardrock Oil Company, and approves the resultant .217 cents per Mcf increase in the cost of TSP natural gas and its cost pass-through to CGC. This increase has already been calculated into the above interim rates which are made permanent in this Order.

3. All motions and objections not ruled upon at the public hearing are DENIED.

DONE IN OPEN SESSION this 4th day of April, 1983, by a vote of 3-0.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION.

Clyde Jarvis

CLYDE JARVIS, Commissioner

JOHN B. DRISCOLL, Commissioner

Howard L. Ellis

HOWARD L. ELLIS, Commissioner

ATTEST:

Madeline L. Cottrill

Madeline L. Cottrill
Commission Secretary

(SEAL)

NOTE: Any interested party may request the Commission to reconsider this decision. A motion to reconsider must be filed within ten (10) days. See 38.2.4806, ARM.